

Executive Summary

The Opportunity:

The Portland metro area like many west coast cities has and continues to face a shortage of multi-family housing. Growth in the immediate area is expected to continue because the East metro area is considered to be much more affordable than Portland proper. The opportunity is to invest in a single asset Opportunity Fund that will own the project until sold ten years after construction begins. The developer has building permits pending so construction can begin this fall with revenue commencing by late 2020.

The Developer will act as the Manager of the Opportunity Fund LLC. As the Manager, the developer will manage the construction and operation of the project until its sale. The project will return over 13% to investors over the course of 10 years. The attached financial estimates are based on \$1.0m and \$2.0m investments.

The Property:

The Ceeley project will be a four-story mixed-use development in Fairview Village in east Multnomah County (east Portland metro area). Two parcels make up the project which is located at the SW corner of the NE Market Drive/NE Village Street intersection. The two parcels combined total 45,613 SF or 1.05 acres. The building will be constructed on the intersection parcel along with additional on-site parking. The second parcel has already been developed as a 62-stall parking area. The project will have 33 apartments over its ground floor which will be occupied by 4-5 office spaces leased on 5+ year leases.

Opportunity Zone Benefits:

The project is located in Fairview's Opportunity Zone which is one of the 86 designated zones in Oregon. Investors seeking favorable capital gains treatment will benefit from the capital gains tax deferral through 2026 and the step-up basis which is maximized if investment occurs in 2019. The step-up basis on owed capital gains is 15% if investment occurs in 2019. The step up in basis drops to 10% for investment after 2019. The project will be held for 10 years from funding to sale to secure the Federal capital gains tax waiver on sales profits. These capital gain benefits increased the projected returns beyond most capital investment opportunities.

Immediate Surroundings:

This is an infill project with the following amenities within one block: a recently renovated 137,000 SF Target store, a new 26,000 VA clinic, the Fairview Post Office, the Fairview Library, Fairview's City Hall and Fairview's main park. The substantial public investment adjacent to the site plus the general amenities of Fairview Village make this project attractive to both residential and office tenants. A local developer is completing a 180-unit multi-family project along NE Halsey abutting Fairview Village. This developer also has approval for a 71-unit mixed use project directly across the street from this project. Lastly, Providence Hospital bought the 5.0-acre parcel across the intersection in December 2009.

Beyond these immediate neighbors, Amazon recently opened a fulfillment center a mile away with 1,500 full-time jobs. Other large local employers include: Boeing, ON Semiconductor, Microchip, Honda, US Bank, Subaru and FedEx. The Port of Portland is continuing to invest at its 221-acre Gresham Vista Business Park which is immediately southeast of Fairview Village.

Market:

Vacancy rates for east county remains below 5% which has been the case for the last 5-7 years. Portland's Inclusionary Zoning (IZ) requirements has led developers to shift their focus outward to the East Multnomah County to avoid the IZ restrictions. Vacancies due to new construction in the area are not expected to increase for two reasons. Rents in nearby Portland are much higher and will increase due to a drastic drop-off in new construction starts due to the IZ restrictions. Job creation across the Portland Metro area remains strong with a steady influx of 25,000 – 30,000 new residents per year to the tri-county area. Oregon's rent control law does not apply to projects less than 15 years old so newer Portland metro area projects will realize rent increase as the shortfall between supply and demand grows.

East metro's affordability vis-à-vis Portland will support income growth above expense growth. Over the ten-year investment cycle this revenue margin will generate more net operating income and enhance the project's overall value at end of investment term.

Project Status:

The subject property is fully approved by the City of Fairview and building permits pending in late September. The project qualified for the City of Fairview's Incentive Program for vacant land. This waiver reduced permitting costs by over \$200,000. The completed parking lot and sitework completed around building pad allows building construction to begin this fall with revenue by the fall of 2020.

Equity:

The developer is leaving \$1,000,000 of land value in the project for twenty percent (20%) share of the fund. Eighty percent (80%) of the LLC will be sold at the rate of \$1,000,000 per sixteen percent (16%) to raise \$5,000,000.

Between \$2,000,000 - \$2,500,000 will be borrowed to fund the balance of project costs beyond the equity. Borrowing approximately 35% percent of the project costs leverages the returns on the investment. Leveraging through nominal borrowing is especially attractive in the existing low interest rate environment. The recourse construction loan will be replaced with a non-recourse permanent loan when the building reaches 85-95% occupancy. A low loan to value when completed is attractive to lenders.

Net Operating Income and reports prepared by the third-party property management company will be distributed monthly. An Oregon CPA will prepare all required tax forms and send K-1s to each investor accordingly.

Returns:

The estimated internal rate of return based on the 10-year hold to secure the federal capital gains waiver is over 13%. Average annual returns across the ten-year term of the investment exceed six (6%). The annual returns in later years is larger as the margin between rents and expenses increases.

These financial estimates do not address the added benefits of the capital gains deferral, step-up and waiver after ten-year hold which are unique to each investor.

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